

Special Comment

Moody's U.S. Public Finance

March 2008

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Request for Comment: Assignment of Global Ratings to Tax-Exempt Municipal Obligations

Beginning in May 2008, Moody's plans to make the following changes to our rating practices in the US Public Finance market:

- In addition to assigning a municipal scale rating, assign global scale ratings ("GSR") to tax-exempt municipal obligations upon issuer request.¹
- Simplify the conversion table that we are now using to estimate global ratings.

The purpose of these proposed changes is to enhance the ability of investors and issuers to compare our ratings on tax-exempt securities with ratings in other sectors rated by Moody's.

We propose to use the municipal rating scale as the starting point in calculation of the GSR, as it would continue to be the benchmark for comparison of municipal issuers to each other. Moody's databases and reports would display both the municipal and, when assigned, the global rating of an obligation.

In the near term, in order to minimize technical and process disruption to users of ratings, we would continue to use the same Aaa through C rating nomenclature for both the municipal and the global rating. We will endeavor to minimize ambiguity in our research reports and press releases by verbal formulations such as "the issuer is rated Aa3 on the municipal scale. Its global scale rating equivalent is Aaa." Additional differentiation of the two ratings may be possible in the future.

To help provide greater clarity and transparency, we also propose to simplify the conversion table that we use to estimate a global rating from a municipal rating. Market participants should bear in mind that the table is a guide and not an automatic conversion from one scale to another. As we have done in the past, we may assign global ratings that vary from the published table as circumstances warrant.

¹ Global Scale Ratings were referred to as Corporate Equivalent Ratings until March 2007.



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Background on Global Scale Ratings

Historically, defaults of rated US municipal bonds have been much rarer than defaults of rated corporate debt. As there were few cross-over investors making direct risk comparisons between municipal bonds and other securities, the meaning and loss expectation of the ratings diverged over time, so that today there is essentially a separate rating scale for US municipal bonds. The municipal scale reflects the somewhat different needs of investors in municipal securities for greater differentiation among securities with low absolute risk.

Beginning in the late 1990s, Moody's initiated an effort to make a quantitative comparison between municipal and corporate risk, and in 2002 we published our first comparative analysis of municipal and corporate ratings. In 2003 we began offering GSRs for taxable issues sold outside the US and for swap obligations of governmental and essential service utility issuers. Moody's expanded the coverage of GSRs in 2007 to include all taxable municipal securities and obligations under swaps and for issuers in all municipal sectors. Until recently, our publication of global ratings has generated relatively little interest, as we have assigned GSRs to taxable debt and swap obligations of only about 20 municipal issuers.

In March 2007, Moody's published a report that discussed the relationship between the municipal rating scale, which we use for issuers in the US municipal bond market, and the global rating scale that we use for corporate, financial institution, structured finance, and non-US public sector ratings. That publication included a conversion table that could be used to estimate the GSRs for various types of municipal debt. This table is applicable to both taxable and tax-exempt debt.

The March 2007 report also states that:

"In recent months, Moody's has received a growing number of requests to make GSRs available for all municipal debt, whether taxable or tax-exempt. While we have no immediate plans to expand GSRs beyond taxable municipal debt, we continue to welcome feedback from market participants on this topic. Even if we decide at some time in the future to make GSRs available for tax-exempt debt, we expect to continue using the municipal scale rating as our starting point in assigning global scale ratings. For the benefit of those market participants who desire to make fine distinctions among municipal securities, we remain committed to maintaining the integrity of the municipal rating scale."

In the past several weeks, in the context of the credit deterioration of certain financial guarantors, Moody's has received a significant amount of feedback from municipal issuers, investors and intermediaries. In response to this recent development, we plan to begin offering GSRs, in addition to the municipal scale rating, without regard to the debt's tax status.

We welcome feedback on the proposed expansion of GSRs to tax-exempt debt and the conversion table. Feedback may be emailed to cpc@moodys.com any time before April 15, 2008.

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Moody's Related Research

Special Comments:

- Moody's US Municipal Bond Rating Scale, November 2002 (76553)
- Moody's Introduces Corporate Equivalent Ratings for Municipal Obligations under Swap and Cross Border Taxable Transactions, April 2003 (77844)
- Request for Comment: Mapping of Moody's U.S. Municipal Bond Rating Scale to Moody's Corporate Rating Scale and Assignment of Corporate Equivalent Ratings to Municipal Obligations, June 2006 (97921)
- Moody's U.S. Municipal Bond Rating Scale: Summary of Market Feedback, November 2006 (100478)
- Mapping of Moody's Municipal Ratings to the Global Rating Scale: Frequently Asked Questions, June 2007 (103423)

Rating Methodologies:

- The Evolving Meaning of Moody's Bond Ratings, September 1999 (48185)
- The U.S. Municipal Bond Rating Scale: Mapping to the Global Scale and Assigning Global Scale Ratings to Municipal Obligations, March 2007 (102249)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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